Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosures**	**Meeting:**	AASB 26 June 2024 (M205)
Topic:	**Superannuation Entities (SMC 21)**	**Agenda Item:**	4.4
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		Project Priority:	High
		Decision-Making:	High
		Project Status:	Consider ED feedback

Objective

1 The objective of this paper is for the Board to:

(a) consider feedback from stakeholders on SMC 21–*Superannuation entities*; and

(b) decide on any changes required to be made to address any superannuation-entity-specific issues for the purposes of finalising the Standard.

Abbreviations

2 The abbreviations used in this paper are outlined in Appendix A of Agenda Paper 4.0.

Background

3 The AASB has been informed that some superannuation entities are concerned about the cost and effort required to comply with [draft] ASRS Standards that would have the same requirements as IFRS S1 and IFRS S2, particularly with the requirement to disclose information about Scope 3 GHG emissions. Some of those entities requested the AASB to consider issuing a separate Standard to set out superannuation-specific climate-related financial disclosure requirements.

4 In order to better understand these concerns, and to seek perspectives from other superannuation stakeholders, the AASB decided to add SMC 21 to request further input from superannuation stakeholders (see ED SR1 paragraphs 87–89).

5 The *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (the Bill) issued on 27 March 2024 proposed that an entity will be required to disclose information about its climate-related risks and opportunities if the entity is a registered scheme, registrable superannuation entity or retail corporate collective investment vehicle (CCIV) with assets at the end of the financial year of the entity and the entities it controls (if any) of $5 billion or more (section 296B(5)). Based on these thresholds, many superannuation entities and some registered schemes would be within the scope of the requirements.[1] Superannuation entities, the most

1 Based on 2021 APRA information, there are approximately 140 RSEs, of which at least 40 hold assets in excess of $10b. More details at *APRA Technical Paper: 2021 Heatmaps–Sustainability of member outcome* (March 2022), accessed on 6 June 2024.

significant part of which comprises the funds managed on behalf of members, prepare general purpose financial statements (GPFS) applying AASB 1056 *Superannuation Entities*.

6 The Bill (section 1707B(4)(c)) proposes that registrable superannuation entities be required to disclose information about their climate-related risks and opportunities for financial reporting periods starting on or after 1 July 2026.[2]

Overview of staff recommendations

7 Staff recommend the Board to clarify in the Basis for Conclusions to [draft] ASRS 2 that:

(a) the entities subject to climate-related financial disclosure requirements should be the same as those to which AASB 1056 applies; and

(a) users of GPFR of superannuation entities may include those listed in AASB 1056 *Superannuation Entities* paragraph BC12.

Structure

8 This paper is structured as follows:

(a) Section 1: Overview of stakeholder feedback

(b) Section 2: Staff analysis and recommendations

(i) Section 2.1: Identifying the relevant reporting entities

(ii) Section 2.2: Identifying the users and information relevant to superannuation entities

(iii) Section 2.3: Staff recommendations

(c) Appendix: Stakeholder comments requesting additional guidance

Section 1: Overview of stakeholder feedback

9 SMC 21 of ED SR1 asked stakeholders: "In your opinion, are there circumstances specific to superannuation entities that would cause challenges for superannuation entities to comply with the proposed requirements in [draft] ASRS 1 and [draft] ASRS 2? If so, please provide details of those circumstances and why they would lead to superannuation entities being unable to comply with the proposed requirements or else able to comply only with undue cost or effort." An identical question was included in the survey.

10 As shown in the table below, a total of 117 comment letters and 289 survey responses were submitted during the comment period:

(a) 30 comment letters responded to SMC 21, with 17 of them identifying specific challenges for superannuation entities; and

(b) 48 survey submissions responded to SMC 21, with 27 of them identifying specific challenges for superannuation entities.

2 The Explanatory Memorandum (paragraph 1.82) to the *Treasury Laws Amendment (Financial Market Infrastructure and other Measures) Bill 2024* identifies registered schemes, registrable superannuation entities, and retail CCIVs as being in Group 2.

	Number of respondents who consider that there are no specific challenges for superannuation entities	Number of respondents who consider that there are specific challenges for superannuation entities	No response
Among the 117 comment letters received[3]	13	17	87
Among of the 289 survey responses received[4]	21	27	241

11 Staff note that the discussion in roundtables broadly aligns with the nature and extent of views expressed on SMC 21 in comment letters and survey responses.

12 The discussion of the feedback below focuses mainly on the 17 respondents that identified challenges. Those respondents that identified there are no specific challenges typically cited a view that many types of entities invest as a profit-making activity, including insurers, and the same climate-related disclosure requirements should apply to the same activities regardless of the entity that conducts those activities.

Section 2: Staff analysis and recommendations

2.1 Identifying the relevant reporting entities

Stakeholder feedback

13 One respondent made comments about needing greater clarity around which entities are intended to be captured within the scope of ASRS 2.[5] That respondent distinguishes between:

- Registrable Superannuation Entities (RSEs);
- RSE licensees (RSELs);
- Managed Investment Schemes (MISs);
- MIS Responsible Entities (REs); and
- investment managers who are operating under an investment management agreement and are not primarily responsible for the reporting of the MIS or RSE that falls under another RE or RSEL.

14 Two respondents made comments about needing greater clarity around choice-based superannuation platforms.[6] They consider that, where individual members make investment decisions, the superannuation entity is acting as a 'administrator' rather than a 'manager' and the administered assets need not be subject to climate-related financial disclosure requirements.

15 That is, only those assets for which entities make active investment decisions and have a relationship with their investments should be captured. This would include the trustee directed investments within industry and retail superannuation entities. One of these respondents notes the same concept should apply to Exchange Traded Funds (ETFs) and other non-superannuation investment vehicles that invest directly.

16 There appears to be a general presumption among most of the respondents to SMC 21 that entities falling within the scope of AASB 1056 would be captured by the proposed disclosure requirements.

3 An overview of stakeholder feedback expressed in the comment letters is presented as Agenda Paper 4.7 for the Board's reference.
4 The survey responses have been provided separately for the Board's reference.
5 Comment letter: 13
6 Comment letters: 13 and 61.

Staff analysis

17 Staff note that:

(a) the issues raised about identifying entities that would be subject to the proposed disclosure requirements are not unique to the superannuation industry and similar issues arise for any collective managed investment vehicle; and

(b) identifying which entities must apply the requirements is a matter for Treasury.

18 Nonetheless, the AASB 1056 Basis for Conclusions (paragraphs BC23 to BC41) includes a discussion of the entities to which AASB 1056 applies and practice in this area is settled.

19 Moreover, IFRS S1 paragraphs 20 and 60 state that an entity's sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements and be included as part of its GPFR. Accordingly, staff consider that the entities subject to climate-related financial disclosure requirements should be the same as those to which AASB 1056 applies.

2.2 Identifying the users and information relevant to superannuation entities

Stakeholder feedback

20 Many respondents made comments about the users of superannuation entity general purpose financial reports being different from the users referred to in the Conceptual Framework.[7] Most of these respondents indicated that the differences should lead to different climate-related financial disclosure requirements for superannuation entities compared with other types of entities. However, the nature and extent of those differences was not spelled out. Instead, some respondents indicated that the requirements relevant to superannuation entities should be calibrated to generating information that would be comprehensible to the average superannuation entity member.

21 More generally, many of these respondents consider that the types of users identified in AASB 1056 would be a more suitable benchmark.[8] Some hold the view that the ISSB did not design IFRS S1 and IFRS S2 for asset owners.

22 A few respondents recommend using the AASB 1056 description of users as a basis for identifying relevant climate-related financial disclosures for superannuation entities.[9]

Staff analysis

23 [Draft] ASRS 1 paragraph B17 states:

> B17 Climate-related financial disclosures are prepared for primary users who have reasonable knowledge of business and economic activities and who review and **analyse information diligently**. At times, even well informed and diligent users may need to seek the aid of an adviser to understand climate-related financial information. [emphasis added]

24 Staff note that all superannuation entities are regarded as being 'for-profit', either member-for-profit entities (industry funds) or both member and shareholder for-profit entities (retail funds) and the Commonwealth's superannuation entity.[10] Accordingly, the relevant comparison with the users identified in AASB 1056 is with the users identified in ED SR1 as enunciated in the *Conceptual Framework for Financial Reporting* in respect of for-profit entities.

> CF1.2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in

7 For example, comment letters: 18, 54, 77, 81, 86, 96, 103, 105 and 110; and survey responses: 4 and 205.

8 For example, comment letters: 54, 77, 81, 96, 103 and 110; and survey response: 4.

9 For example, comment letters: 18, 54, 77, 81, 86, 96 and 110.

10 The Commonwealth Superannuation Corporation (CSC) is a trustee, which holds an RSE licence and is regulated by APRA. The superannuation entity as a whole for which the CSC is trustee is a for-profit entity. That entity includes: the Commonwealth Superannuation Scheme, Public Sector Superannuation Scheme, Military Superannuation and Benefits Scheme, Public Sector Superannuation accumulation plan, and Australian Defence Force Superannuation. The entity applies AASB 1056 and has assets well in excess of $5 billion.

making decisions relating to providing resources to the entity. Those decisions involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or settling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

25 AASB 1056 paragraph BC12 identifies the most prominent users of superannuation entity general purpose financial statements:

(a) current and potential members and beneficiaries;

(b) parties that act on behalf of members and beneficiaries, such as financial analysts, advisors and unions; and

(c) employer-sponsors.

26 Staff also note that, based on the post-implementation review of AASB 1056[11] and the recent change to lodgement requirements for RSEs, the Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC) were also identified as users, although no amendments were made to AASB 1056 in that respect.

27 A key distinguishing factor that might affect the types of users of superannuation entity GPFR from users of other entities' GPFR, including other types of investment vehicle GPFR, is the compulsory nature of the Australian superannuation system. That is, Australian employees are compelled to contribute a portion of their salaries to superannuation, and many workers have their contributions made to a superannuation entity of their choice, or by default.[12] Membership is portable and not tied to an employer and members can move assets from one superannuation entity to another.

28 In contrast, direct investment in equity or debt securities or managed investment schemes is discretionary, and relative to most superannuation entity members, these investors might be expected to either have performed more research about their investments themselves or be more likely to have acted on financial advice.

29 Accordingly, the primary users of information about climate-related risks and opportunities of superannuation entities might be regarded as being relatively less diligent than the users of other entities' GPFR, which in turn might impact on the types of climate-related information that should be disclosed.[13]

30 However, staff also note that:

(a) some superannuation members and employers use the services of financial advisers in either selecting a superannuation entity to invest in or determining the particular investment mix they hold with a given superannuation entity; and

(b) the post-implementation review of AASB 1056 revealed that few individual superannuation entity members use the GPFS, and there is a general reliance by many members on other more 'expert' users, including financial advisors, the prudential regulator (APRA) and, more recently, ASIC, effectively providing oversight of superannuation entity performance and accountability.

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11 Refer to AASB 1056 Post-implementation Review Feedback Statement.

12 Of the 75% of superannuation assets outside SMSFs, approximately one third is in a MySuper product, which is typically a default option: https://www.superannuation.asn.au/resources/super-stats/ and https://www.morningstar.com.au/insights/retirement/246207/smsfs-continue-to-thrive.

13 Industry research consistently shows a low level of engagement by superannutaion entity members – for example, https://www.ey.com/en_au/financial-services/member-engagement; and https://www.investmentmagazine.com.au/2024/05/super-funds-set-up-to-meet-the-retirement-challenge/.

31 Accordingly, in the context of [draft] ASRS 1 paragraph B17, some users could potentially be described as having reasonable knowledge of business and economic activities and reviewing and analysing information diligently.

32 Staff also note that an Australian worker can satisfy the requirement for investing superannuation guarantee contributions by having a self-managed superannuation fund (SMSF) that invests in managed investment schemes,[14] rather than being a member of a superannuation entity operated by a RSE. However, staff also note that there may be an argument that SMSF members are more sophisticated or more likely to seek professional investment advice than members of RSE-operated superannuation entities.

2.3 Staff recommendations

33 Staff recommend clarifying in the Basis for Conclusions to ASRS 2 that:

(a) the entities subject to climate-related financial disclosure requirements should be the same as those to which AASB 1056 applies; and

(b) users of GPFR of superannuation entities may include those listed in AASB 1056 paragraph BC12 (outlined in paragraph 25 above).

Question to Board members:

Q1: Do Board members agree with the staff recommendations to clarify in the Basis for Conclusions to [draft] ASRS 2 that:

(c) the entities subject to climate-related financial disclosure requirements should be the same as those to which AASB 1056 applies; and

(d) users of GPFR of superannuation entities may include those listed in AASB 1056 paragraph BC12?

If not, what would you suggest and why?

34 The Appendix to this paper summarises other comments from stakeholders relating to the request for the AASB to provide guidance and education material. The Board decided in its August 2023 meeting to defer work on developing additional guidance to support the implementation of ASRS Standards until after the Standards have been issued. Accordingly, staff recommend that the Board defer work on developing any additional guidance that might be needed in respect of superannuation entities until after the ASRS Standards have been issued.

14 Self-managed superannuation funds are major investors in managed investment vehicles: SuperGuide, *SMSF investment: 20 most popular managed funds*, B Drury, October 2023

Appendix: Stakeholder comments requesting additional guidance

A1 Some respondents commented that it would be appropriate or necessary for the AASB to develop separate guidance for superannuation entities, or at least additional guidance to make the proposals relevant for superannuation entities.[15] Their reasons included that:

(a) the proposed requirements are designed more for entities that employ assets or finance assets as part of their operations, rather than 'pure' investors;

(b) superannuation entities' primary users (relative to users of other entities' GPFR) would not necessarily need the level of detail being proposed in ED SR1, and that materiality applied in a superannuation entity context would probably lead to different types of disclosures; and

(c) the lack of take-up of climate-related financial disclosure among asset managers globally, including by overseas equivalents to superannuation entities in relatively advanced markets.

A2 A few stakeholders noted that requirements for superannuation entities to measure Scope 3 GHG emissions may not be achievable without 'undue cost or effort'.[16]

A3 A few stakeholders question the usefulness of some disclosures in light of the fact that many superannuation entities effectively invest in a cross-section of the Australian and global economies, and their climate-related financial disclosures may simply reflect global climate risks and opportunities rather than provide any insights into entity-based risks and opportunities.[17]

A4 Some stakeholders suggested the Board consider developing additional guidance tailored for asset owners and superannuation entities to assist them in preparing their disclosure against [draft] ASRS 1 and [draft] ASRS 2.[18] The guidance is suggested to:

(a) be developed using the TCFD framework for asset owner reporting or PCAF as a baseline, with amendments that make these disclosures user-friendly to the superannuation entities' primary end users;[19]

(b) cover case studies drawing on current superannuation entity good practice;[20]

(c) address materiality and proportionality for superannuation entities to enhance targeted and relevant disclosures for end users;[21] and

(d) include more granular recommendations for disclosing relevant activities such as investment approaches, stewardship activities (e.g. engaging with companies and voting on climate resolutions), and scenario analysis in the context of assessing investment portfolios.[22]

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15 For example, comment letters: 13, 18, 21, 22, 34, 54, 77, 81, 96, 101, 103, 105 and 110.
16 For example, comment letters: 21, 40 and 74; and survey responses: 23, 53, 112, 114, 116, 156, 190, 214, 223 and 279.
17 For example, comment letters: 18, 54, 96 and 101.
18 For example, comment letters: 13, 18, 22, 34, 54, 77, 81, 96, 101, 103 and 105; and survey responses: 4 and 196.
19 For example, comment letters: 18 and 105; and survey response: 4.
20 For example, comment letter: 77.
21 For example, comment letters: 54, 77 and 96.
22 For example, comment letter: 77.